

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



35TH DISTRICT AGRICULTURAL ASSOCIATION
MERCED COUNTY FAIR
MERCED, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

AUDIT REPORT #08-035
FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

35TH DISTRICT AGRICULTURAL ASSOCIATION
MERCED COUNTY FAIR
MERCED, CALIFORNIA

INDEPENDENT AUDITOR'S REPORT
AND FINANCIAL STATEMENTS

FOR THE YEARS ENDED
DECEMBER 31, 2007 AND 2006

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Patricia Moore

Audit Chief
Assistant Audit Chief
Auditor

AUDIT REPORT NUMBER

#08-035

35TH DISTRICT AGRICULTURAL ASSOCIATION
MERCED COUNTY FAIR
MERCED, CALIFORNIA

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Jim Cunningham, President
Board of Directors
35th DAA, Merced County Fair
900 Martin Luther King Jr. Way
Merced, California 95341

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying statements of financial condition of the 35th District Agricultural Association (DAA), Merced County Fair, Merced, California, as of December 31, 2007 and 2006, and the related statements of operations and changes in accountability, and cash flows-regulatory basis for the years then ended. These financial statements are the responsibility of the 35th DAA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

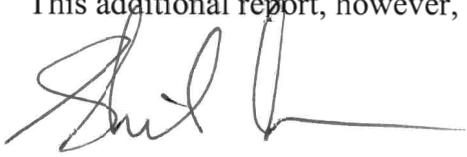
We have conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the 35th DAA, Merced County Fair, as of December 31, 2007 and 2006, and the results of its operations and changes in accountability, and cash flows-regulatory basis for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

The 35th DAA, Merced County Fair has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be part of, the basic financial statements.



Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Management Report #08-035, on the 35th DAA's compliance with State laws and regulations and system of internal accounting control, is issued solely for the purpose of additional analysis and should be addressed by the 35th DAA as appropriate. This additional report, however, is not a required part of the basic financial statements.

A handwritten signature in black ink, appearing to read 'Ron Shackelford', with a long horizontal stroke extending to the right.

For Ron Shackelford, CPA
Chief, Audit Office

November 7, 2008

**35TH DISTRICT AGRICULTURAL ASSOCIATION
MERCED COUNTY FAIR
MERCED, CALIFORNIA**

STATEMENTS OF FINANCIAL CONDITION
December 31, 2007 and 2006

	Account Number	2007	2006
ASSETS			
Cash in Bank	111-117	\$ 554,969	\$ 479,024
Accounts Receivable, Net	131	41,079	72,577
Deferred Charges	143	3,741	1,019
Construction In Progress	190	-	-
Land	191	179,771	179,771
Buildings and Improvements, Net	192	911,968	886,562
Equipment, Net	193	1,772	8,485
TOTAL ASSETS		<u>1,693,301</u>	<u>1,627,439</u>
LIABILITIES AND NET RESOURCES			
Liabilities and Other Credits			
Insurance Fees and Collected	211	-	75
Accounts Payable	212	21,374	46,165
Payroll Liabilities	223-226	1,069	133
Deferred Income	228	185,362	80,814
Guaranteed Deposits	241	4,250	19,100
Compensated Absences Liability	245	41,486	36,042
Total Liabilities and Other Credits		<u>253,541</u>	<u>182,330</u>
Net Resources			
Reserve for Junior Livestock Auction	251	9,961	17,456
Net Resources - Operations	291	336,287	352,835
Net Resources - Capital Assets, less Related Debt	291.1	1,093,511	1,074,819
Total Net Resources Available		<u>1,439,760</u>	<u>1,445,109</u>
TOTAL LIABILITIES AND NET RESOURCES		<u>\$ 1,693,301</u>	<u>\$ 1,627,439</u>

**35TH DISTRICT AGRICULTURAL ASSOCIATION
MERCED COUNTY FAIR
MERCED, CALIFORNIA**

STATEMENTS OF OPERATIONS/CHANGES IN ACCOUNTABILITY
Years Ended December 31, 2007 and 2006

	Account Number	2007	2006
REVENUE			
State Apportionments	312	\$ 124,000	\$ 124,000
Capital Project Reimbursement Funds	319	76,498	54,628
Admissions	410	408,157	336,354
Commercial Space	415	54,051	50,876
Carnival	421	198,482	193,182
Food Concessions	422	112,188	88,523
Exhibits	430	18,065	17,386
Horse Show	440	784	964
Attractions - Fairtime	460	51,158	51,202
Miscellaneous Fair	470	102,406	97,386
JLA - Revenue	476	29,471	532,531
Non-Fair Revenue	480	665,256	611,482
Prior Year Adjustment	490	1,943	2,681
Other Revenue	495	26,097	74,448
Total Revenue		<u>1,868,555</u>	<u>2,235,644</u>
EXPENSES			
Administration	500	366,105	387,993
Maintenance and Operations	520	553,839	565,240
Publicity	540	114,998	101,844
Attendance	560	107,969	106,505
Miscellaneous Fair	570	30,792	31,589
JLA - Expense	576	36,965	525,977
Premiums	580	47,553	44,842
Exhibits	630	122,831	122,919
Horse Show	640	1,484	1,327
Attractions - Fairtime	660	358,926	335,245
Equipment	723	(1,270)	11,200
Prior Year Adjustments	800	72,361	(15,449)
Cash Over/Short from Ticket Sales	850	347	(46)
Depreciation Expense	900	61,111	58,978
Other Capital Expenditure	912	(107)	1,000
Total Expenses		<u>1,873,904</u>	<u>2,279,163</u>
RESOURCES			
Net Change - Income / (Loss)		(5,349)	(43,519)
Resources Available, January 1		1,445,109	1,488,628
Resources Available, December 31		<u><u>\$ 1,439,760</u></u>	<u><u>\$ 1,445,109</u></u>

**35TH DISTRICT AGRICULTURAL ASSOCIATION
MERCED COUNTY FAIR
MERCED, CALIFORNIA**

**STATEMENTS OF CASH FLOWS - REGULATORY BASIS
Years Ended December 31, 2007 and 2006**

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Excess of Revenue Over Expenses (Expenses Over Revenue)	\$ (5,349)	\$ (43,519)
Adjustment to Reconcile Excess of Revenue Over Expenses to Net Cash Provided by Operating Activities:		
(Increase) Decrease in Accounts Receivable, Net	31,497	14,364
(Increase) Decrease in Deferred Charges	(2,722)	(1,019)
Increase (Decrease) in Deferred Income	104,548	40,399
Increase (Decrease) in Insurance Fees Collected	(75)	45
Increase (Decrease) in Accounts Payable	(24,791)	(12,041)
Increase (Decrease) in Payroll Liabilities	936	(2,949)
Increase (Decrease) in Compensated Absence Liability	5,443	(20,144)
Increase (Decrease) in Guarantee Deposits	(14,850)	(6,990)
Total Adjustments	<u>99,986</u>	<u>11,665</u>
Net Cash Provided (Used) by Operating Activities	<u>94,637</u>	<u>(31,854)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Increase (Decrease) in Investment in Capital Assets	-	-
(Increase) Decrease in Construction In Progress	-	7,080
(Increase) Decrease in Buildings & Improvements	(25,405)	36,412
(Increase) Decrease in Equipmen	6,713	6,713
Net Cash Provided (Used) by Investing Activities	<u>(18,692)</u>	<u>50,205</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Increase (Decrease) in Long-Term Liability	-	-
Net Cash Provided (Used) by Financing Activities	<u>-</u>	<u>-</u>
NET INCREASE (DECREASE) IN CASH	75,945	18,351
Cash at Beginning of Year	479,024	460,673
CASH AT END OF YEAR	<u><u>\$ 554,969</u></u>	<u><u>\$ 479,024</u></u>

**35TH DISTRICT AGRICULTURAL ASSOCIATION
MERCED COUNTY FAIR
MERCED, CALIFORNIA**

NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007 and 2006

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - The 35th District Agricultural Association (DAA) was formed on August 14, 1934 for the purpose of sponsoring, managing, and conducting the Merced County Fair each year in Merced, California. The State of California, Department of Food and Agriculture, through the Division of Fairs and Expositions provides oversight responsibilities to the DAA. The DAA is subject to the policies, procedures, and regulations set forth in the California Government Code, California Business and Professions Code, Public Contracts Code, Food and Agricultural Code, State Administrative Manual, and the Accounting Procedures Manual established by the Division of Fairs and Expositions.

The State of California allocates funds annually to the DAA's to support operations and acquire fixed assets. However, the level of State funding varies from year to year based on budgetary constraints. The Division of Fairs and Expositions determines the amount of the allocations.

Basis of Accounting - The accounting policies applied to and procedures used by the DAA conform to accounting principles applicable to District Agricultural Associations as prescribed by the State Administrative Manual and the Accounting Procedures Manual. The DAA's activities are accounted for as an enterprise fund. The Governmental Accounting Standards Board defines an enterprise fund as a fund related to an organization financed and operated in a manner similar to a private business enterprise where the intent is to recover the costs of providing goods or services to the general public primarily through user charges.

The DAA's financial activities are accounted for using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Governmental Accounting Standards Board. Thus, revenues are reported in the year earned rather than collected, and expenses are reported in the year incurred rather than paid.

Use of Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the

reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes – The DAA is a state agency and therefore, is exempt from paying taxes on its income.

Cash and Cash Equivalents - The DAA's cash and cash equivalents are separately held in various local banks. The Financial Accounting Standards Board defines cash equivalents as short-term, highly liquid investments that are both: (1) readily convertible to known amounts of cash; and (2) so near their maturity that they present insignificant risk of changes in value because of changes in interest rates. The cost of all cash equivalents of the DAA approximates market value.

The California State Treasury makes available the Local Agency Investment Fund (LAIF) through which local governments may pool investments. Each governmental entity may invest up to \$40,000,000 in the fund. Investments in the LAIF are highly liquid, as deposits can be converted to cash within 24 hours without loss of interest.

In accordance with the Accounting Procedures Manual, the DAA is authorized to deposit funds in certificates of deposit and interest bearing accounts. However, Government Code Sections 16521 and 16611 require the bank or savings and loan association to deposit, with the State Treasurer, securities valued at 110 percent of the uninsured portion of the funds deposited with the financial institution. Government Code Sections 16520 and 16610 provide that security need not be required for that portion of any deposit insured under any law of the United States, such as FDIC and FSLIC.

Inventories – Inventories, if any, consists primarily of souvenir items sold during fair time, and is stated at cost.

Property and Equipment - Construction-in-progress, land, buildings and improvements, and equipment, if any, are acquired with operating funds and funds allocated by the State. Any acquired assets, if greater than \$5,000 and a useful life of one or more years, are capitalized and depreciated. Buildings and improvements are depreciated over a period of 30 years, and purchases of equipment are depreciated over five years. Amounts spent on repair and maintenance costs are expensed as incurred by the Fair. Furthermore, donated building improvements, and equipment are recorded at their fair market value at the date of the gift. This recorded basis is depreciated over the useful lives identified above. Amounts spent on projects that have not been placed in service are recorded in Account #190, Construction-in-Progress and no depreciation is recorded on Construction-in-Progress until the project is completed and the asset is placed in service.

Sales Taxes – The State of California imposes a sales tax of 7.75% on all of the DAA's sales of merchandise. The DAA collects that sales tax from

customers and remits the entire amount to the state Board of Equalization. The DAA's accounting policy is to exclude the tax collected and remitted to the State from revenues and cost of sales.

Compensated Absences - Pursuant to Statement No. 16 of the Governmental Accounting Standards Board, State and local governmental entities are required to report the liability for compensated absences. Compensated absences are absences for which permanent employees will be paid, such as vacation, personal leave, and compensatory time off. The compensated absences liability is calculated based on the pay rates in effect at the balance sheet date.

NOTE 2 CASH AND CASH EQUIVALENTS

The following list of cash and cash equivalents were held by the 35th DAA as of December 31:

	<u>2007</u>	<u>2006</u>
Petty Cash	\$ 250	\$ 300
Cash in Bank - Operating	71,750	35,238
Cash in Bank - Premium	0	30
Cash in Bank - Payroll	1,183	1,183
Cash in Bank – LAIF	464,680	430,972
Cash in Bank - JLA	<u>17,106</u>	<u>11,301</u>
 Total Cash and Cash Equivalents	 <u><u>\$ 554,969</u></u>	 <u><u>\$ 479,024</u></u>

NOTE 3 ACCOUNTS RECEIVABLE

The DAA is required to record an allowance for doubtful accounts based on estimates of collectibility.

	<u>2007</u>	<u>2006</u>
Accounts Receivable - Trade	\$ 49,354	\$ 83,418
Allowance for Doubtful Accounts	<u>(8,275)</u>	<u>(10,841)</u>
 Accounts Receivable - Net	 <u><u>\$ 41,079</u></u>	 <u><u>\$ 72,577</u></u>

NOTE 4 PROPERTY AND EQUIPMENT

Buildings and improvements, and equipment at December 31, 2007 and 2006 consist of the following:

	<u>2007</u>	<u>2006</u>
Building & Improvements	\$3,941,477	\$3,861,673
Less: Accumulated Depreciation	<u>(3,029,509)</u>	<u>(2,975,111)</u>
Building & Improvements - Net	<u><u>\$ 911,968</u></u>	<u><u>\$ 886,562</u></u>

	2007	2006
Equipment	\$ 160,449	\$ 160,449
Less: Accumulated Depreciation	(158,677)	(151,964)
Equipment - Net	<u>\$ 1,772</u>	<u>\$ 8,485</u>

NOTE 5 **CAPITAL LEASE**

In 2005, the 35th DAA entered into a lease agreement with a private company for an office copier. During 2005, 2006, and 2007 the 35th DAA accounted for the lease agreement as an operating lease thereby each monthly payment of \$197 was incorrectly expensed. According to Statement of Financial Accounting Standards No. 13, a lease is considered as a capital lease if it meets one of the four criteria: (i) transfer of ownership, (ii) bargain purchase option, (iii) present value of the minimum lease payments equal or greater than 90% of the fair market value of the leased property and (iv) the lease term is 75% or more of the estimated economic life of the leased property. The lease agreement indicates a lease term of 60 months. In general, the economic life for equipment, i.e. copier is five years. Since the lease term is 100% of the economic life, the office copier qualifies as a capital lease. Therefore, the 35th DAA should capitalize the copier in Account #193, Equipment, and depreciate it accordingly. Furthermore the 35th DAA should recognize a long-term obligation for outstanding balance at year-end.

NOTE 6 **RETIREMENT PLAN**

Permanent employees of the DAA are members of the Public Employees' Retirement System (PERS), which is a defined benefit contributory retirement plan. The retirement contributions made by the DAA and its employees are actuarially determined. Contributions plus earnings of the Retirement System will provide the necessary funds to pay retirement costs when accrued. The DAA's share of retirement contributions is included in the cost of administration. For further information, please refer to the annual single audit of the State of California.

Retirement benefits fully vest after five years of credited service for Tier I employees. Retirement benefits fully vest after ten years of credited service for Tier II employees. Upon separation from State employment, members' accumulated contributions are refundable with interest credited through the date of separation. The DAA, however, does not accrue the liability associated with vested benefits.

The Alternate Retirement Program (ARP) is a retirement savings program that certain employees hired on or after August 11, 2004 are automatically enrolled in for their first two years of employment with the State of California. ARP is administered by the Savings Plus Program with the Department of Personnel Administration and invests funds in a fixed-income fund. ARP provides two years of retirement savings (five percent of paycheck amount each month) in

lieu of two years of service credit. At the end of the two-year period, the deductions are placed in CalPERS and the retirement service credit begins.

Temporary, 119-day, employees of the DAA participate in the Part-Time, Seasonal, Temporary (PST) Retirement Plan. The PST Retirement Plan is a mandatory deferred compensation plan under which 7.5% of the employee's gross salary is deducted before taxes are calculated. These pre-tax dollars are placed in a guaranteed savings program. The employee has the option of leaving these funds on deposit upon separation, or requesting a refund.

NOTE 7 **RECLASSIFICATION**

Certain prior-year balances have been reclassified to conform to current year presentation. This reclassification did not have an effect on net income.

**35TH DISTRICT AGRICULTURAL ASSOCIATION
MERCED COUNTY FAIR
MERCED, CALIFORNIA**

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 35th DAA Board of Directors
1	Chief Executive Officer, 35th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office

CALIFORNIA DEPARTMENT OF FOOD AND AGRICULTURE

AUDIT OFFICE



35TH DISTRICT AGRICULTURAL ASSOCIATION
MERCED COUNTY FAIR
MERCED, CALIFORNIA

MANAGEMENT REPORT #08-035

YEAR ENDED DECEMBER 31, 2007

35TH DISTRICT AGRICULTURAL ASSOCIATION
MERCED COUNTY FAIR
MERCED, CALIFORNIA

MANAGEMENT REPORT
YEAR ENDED DECEMBER 31, 2007

AUDIT STAFF

Ron Shackelford, CPA
Shakil Anwar, CPA
Patricia Moore

Audit Chief
Assistant Audit Chief
Auditor

MANAGEMENT REPORT NUMBER
#08-035

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CALIFORNIA DEPARTMENT OF
FOOD & AGRICULTURE

A. G. Kawamura, Secretary

Jim Cunningham, President
Board of Directors
35th DAA, Merced County Fair
900 Martin Luther King Jr. Way
Merced, California 95341

In planning and performing our audit of the financial statements of the 35th District Agricultural Association (DAA), Merced County Fair, Merced, California, for the year ended December 31, 2007, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control structure. However, we noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In addition, this Management Report includes: (1) matters other than those related to the internal control structure which came to our attention that could, in our judgment, either individually or in the aggregate, have a significant effect on the entity's financial reporting process (e.g., accounting errors, significant audit adjustments, etc.), and (2) areas of non-compliance by the Merced County Fair with respect to State laws and regulations, with the Accounting Procedures Manual, and with established policies and procedures.

In accordance with Government Code Section 13402, Fair managers and Board of Directors are responsible for the establishment and maintenance of a system or systems of internal accounting and administrative control within their agencies. This responsibility includes documenting the system, communicating system requirements to employees, and assuring that the system is functioning as prescribed and is modified, as appropriate, for changes in conditions.

Due to the small size of the 35th DAA's office staff, it is not practical to have the degree of segregation of duties possible in a larger organization. Therefore, the Board of Directors must consider this when determining the extent that the Board becomes involved in operations to adequately safeguard the 35th DAA's assets. The system of internal control should provide the Board of Directors and management reasonable, but not absolute, assurance that: (1) only authorized transactions are executed; (2) transactions are properly recorded in the accounting records; and (3) material errors and irregularities that may occur, will be detected by the 35th DAA in a timely manner during the normal course of operations.



In this regard, it is particularly important that the Board review and approve significant transactions and critically review monthly financial information. The 35th DAA's minimum staffing was one factor considered in determining the nature, timing, and extent of the tests to be performed on the 35th DAA's accounting procedures, records, and substantiating documents.

During our audit of the internal control structure of the 35th DAA and compliance with state laws and regulations, we identified four areas with reportable conditions that are considered weaknesses in the Fair's operations: standard agreements, sponsorship policies & procedures, accounting for capital leases, and weakness in cash account reporting. We have provided four recommendations to improve the operations of the Fair. The Fair must respond in writing on how these recommendations will be implemented.

We also identified additional areas containing non-reportable conditions. These conditions and accompanying recommendations are not considered significant weaknesses. We have included these items solely for the benefit of the 35th DAA's management. We suggest the Fair implement the recommendations as soon as practicable. The Fair, however, is not required to provide written responses to the recommendations for non-reportable conditions.

REPORTABLE CONDITIONS

STANDARD AGREEMENTS

In examining the standard agreements for the audit period, our office noted that the Fair entered into a contract with an individual to acquire sponsorship monies from various entities for which the Fair paid 15% of the sponsorship proceeds to the individual. During 2007 the Fair paid the individual/independent contractor \$8,550; however, the Fair did not prepare a Form 1099 - MISC. A Form 1099-MISC is required by the Internal Revenue Service to be prepared for each person who receives \$600 or more from the Fair in any calendar year.

Recommendation

1. *The Fair should comply with federal reporting laws and ensure a Form 1099-MISC is issued when required to all independent contractors who receive \$600 or more from the Fair.*

SPONSORSHIP POLICY & PROCEDURES

Our office found when reviewing the 35th DAA's Policy & Procedure Manual that the Board of Directors had not established policies and procedures for entering into sponsorship agreements and the securing of sponsorships, as required by the F&E Contracts Manual, Chapter 6 § 6.25. According to the F&E Contracts Manual the process to follow is: a) DAA Boards establish "procedures" for entering into sponsorship agreements, b) each DAA's procedures for securing sponsorships and sponsorship coordinators must be approved by the Board and maintained on file at the DAA's contract office, c) the DAA then follows the sponsorship procedures set by their Board, d) these procedures for sponsorship contracting, as well as the contracts themselves, are not subject to the Contract Manual requirements or F&E approval. They are subject to procedures established by the DAA. However, it should be noted that Food and Agriculture Code 4051.1 (b) does require F&E pre-approval on sponsorship contracts that exceed \$100,000 in value, or have a term of over two years, or contemplate the building of a permanent structure on fair property.

Recommendation

2. *The Fair Board of Directors should comply with the F&E Contracts Manual and establish policies and procedures for entering and securing sponsorship agreements.*

ACCOUNTING FOR CAPITAL LEASES

The Fair did not comply with Generally Accepted Accounting Principles (GAAP) and establish an asset or long-term liability for the lease of an office copier. According to Statement of Financial Accounting Standards (SFAS) No. 13, a lease is considered a capital lease if it meets one of the four criteria: (i) transfer of ownership, (ii) bargain purchase option, (iii) present value of the minimum lease payments equal or greater than 90% of the

Management Report #08-035

Merced, California

fair market value of the leased property or (iv) the lease term is 75% or more of the estimated economic life of the leased property. The lease agreement indicates a lease term of 60 months. In general, the economic life for equipment, i.e. copier, is five years. Since the lease term is 100% of the economic life, the office copier qualifies as a capital lease. Our office noted the Fair accounted the office copier lease agreement as an operating lease rather than capital lease; as a result, the Fair incorrectly expensed each monthly payment made in 2005, 2006, and 2007.

GAAP requires that the office copier acquisition be capitalized and depreciated, and that the Fair establish as a long-term debt the unpaid obligation. Based on the review of the lease payments, we noted the monthly payment of \$197 does not indicate the portion related to the principal or the interest. Thus, it is the Fair's responsibility to obtain pertinent information such as an amortization schedule from the lessor to determine the principal and unpaid obligation amounts. Due to the lack of this pertinent information, we cannot determine the amount to be capitalized in Account #193, Equipment, and the unpaid obligation to establish a long-term liability. This issue is also addressed in Note 5 of the Independent Auditor's Report #08-035, as part of the notes to the financial statements. This was a prior year finding.

Recommendation

3. *The Fair should comply with GAAP when accounting for all equipment leases. The Fair should obtain an amortization schedule from the lessor to establish the long-term liability of the unpaid obligation of the lease in Account #250, Long Term Debt, and capitalize the principal portion of the lease in Account #193, Equipment.*

WEAKNESS IN CASH ACCOUNT REPORTING

Our office noted the Fair did not use the correct information to prepare Standard Form 445, "Report of Bank/Savings & Loan Association Account Outside the Treasury System". For its operating, payroll, JLA, and premium cash accounts, the Fair reported the June 30, 2007 balances as \$102,255, \$15,054, \$21,024, and \$6,874, respectively, using bank statement balances. However, the State Treasurer's Office (STO) requires the book (general ledger) balance, rather than the bank statement balance, to be reported for each bank account outside the State Treasury. The book balances in the cash accounts as of June 30, 2007 were: Operating \$72,884, Payroll \$1,183, JLA \$17,456, and Premium \$0 (zero), per the general ledger. As a result, the Standard 445 Form was overstated by \$59,646.

Recommendation

4. *Prior to submission to the State Treasurers Office, the Fair should ensure Standard Form 445, "Report of Bank/Savings and Loan Association" reflects the general ledger balance, rather than bank statement balance, at June 30 for each bank account outside the State Treasury.*

NON-REPORTABLE CONDITIONS

ACCOUNTING FOR INTERIM REVENUE

The Fair exposed itself to a loss as there is no use of Form F-31, Rental Agreement, for those renters who have reciprocal agreements with the Fair. In 2007 the Fair entered into “no charge” rental agreements with organizations that provide reciprocal benefits to the Fair, such as the Merced Probation Department that provides labor for grounds maintenance periodically. However, the Fair does not create the required rental agreements detailing the dates of usage and verification of the renter’s certificate of insurance in order to protect the Fair’s interests. So as to protect the interests of the Fair and the State of California, it is necessary to use Form F-31, which would describe the terms, rights and privileges, and the prohibition of uses to the renter.

Additionally, an examination of the 2007 interim revenue revealed that the Fair does not maintain supporting documentation when journalizing interim revenue from GL #228, Deferred Income, to identify the rental agreements for which the income is being recorded. The lack of internal controls over interim revenue prohibits verification of the appropriateness of the journalized income for specific accounting periods.

Recommendations

The Fair should use Form F-31, Rental Agreement, for all renters who are permitted to use the fairgrounds or its facilities, and indicate on the Form F-31, when applicable, that there is “no charge” for the usage.

The Fair should prepare and maintain supporting documentation for all journal entries effecting interim income, including specific information regarding which rental agreement income is being recognized within the journal entry.

ACCOUNTING FOR FIXED ASSETS

Our office noted that the 35th DAA overstated an asset titled “electrical improvements” due to three separate improvement projects being lumped together as one sum, although two of the three projects did not meet the Department of Finance (DOF) capitalization criteria of costing \$5,000 or more.

In addition, the Fair did not identify all movable State property with a permanent stamp or property identification tag. In accordance with F&E requirements, all property, regardless of whether capitalized or expensed, should be controlled, identified and tagged.

Recommendations

The 35th DAA should review all assets listed in the Asset Depreciation Schedule to verify that the historical cost of an asset meets the DOF capitalization criteria of having a useful life of more than one year and a cost of \$5,000 or more.

The Fair should ensure that all movable property be permanently stamped, tagged or marked so that it may be readily identified as belonging to the Fair. Choice of method depends on the character and volume of the assets. The Fair should develop policy to determine which types of assets are required to be identified.

JUNIOR LIVESTOCK AUCTION

The Fair did not reconcile Account #251, Reserves for Junior Livestock Auction (JLA), to the corresponding Account #117, JLA Cash account. As a result, these accounts did not agree. According to the Accounting Procedures Manual (APM), the balance in the auction account, adjusted for accounts receivable and accounts payable, must equal the net resources Account #251, Reserves for JLA.

Our office also noted that the 35th DAA paid \$36,838 from its operating cash account for expenses directly related to the Junior Livestock Auction without receiving reimbursement from the JLA cash account. The APM, Section II, Chapter 5 § 5.32 recommends that the Fair handle the direct auction expenses one of two ways: to pay the expenses directly from the JLA cash account, or to pay the expense from the operating cash account and “draw reimbursement transfer checks from the JLA cash account.”

Recommendations

The Fair should comply with the APM by ensuring Account #251, Reserves for JLA, reconciles to the corresponding JLA cash account adjusted for any accounts payable and receivable.

The Fair should comply with the APM by ensuring that direct auction expenses are reimbursed by the JLA cash account when paid from the operating cash account.

CASH RECEIPTS

The Fair did not always deposit revenues collected in a timely manner. According to the F&E APM, timely deposits are essential to mitigate the possibility of a loss of funds by the Fair. The Fair should make deposits by the next business day when currency exceeds \$500 or when cash and checks in the aggregate exceeds \$5,000. Furthermore, any collections over \$50 should be deposited within five working days and no collections should remain un-deposited for more than fifteen working days. The Fair allowed some deposits exceeding \$5,000 to remain un-deposited for up to 7 days.

Recommendation

The Fair should comply with the APM by ensuring that all revenues collected are deposited in a timely manner. Timely deposits reduce the potential of loss to the Fair.

DELEGATED AND OPPORTUNITY PURCHASES

The Fair did not always follow the State purchasing procedures as required by Department of General Services (DGS). A Standard 65 form, Contract/Delegation Purchase Order, or an internal purchase order was not always completed for purchases over \$100. Based on our audit, the Fair utilized the purchase order log as a purchase order instead of completing Standard 65 form. The Standard 65 forms that were completed did not always pre-date the purchase. According to the APM §III, 2.11, Accounting Controls, a purchase order should be completed for all purchases over \$100 and approved by the appropriate level of management prior to making purchases. This was a prior year finding.

The Fair made opportunity purchases during 2007; however, the Fair did not document that purchases made locally were at a price equivalent to or less than that available through the state-purchasing program. Opportunity purchases allow DAAs to purchase commodities from any source provided it meets or beats the state price. In addition, Section 10321 of the Public Contract Code (PCC) states that local businesses often provide opportunity purchases to local fairs that may be purchased locally at a price equivalent to or less than that available through the state purchasing program. Therefore, to claim an opportunity purchase, the Fair must demonstrate and provide copies of bid information or exemption justification when necessary. This was a prior year finding.

Recommendations

The Fair should comply with the purchase order requirements and complete a Purchase Order (Standard 65 Form) for all purchases over \$100 and ensure all purchase orders contain a signature from the CEO to certify an approval took place prior to making any purchases.

DISTRICT AGRICULTURAL ASSOCIATION'S RESPONSE



March 12, 2009

Ron Shackelford, Chief
Audit Office
Department of Food and Agriculture
1220 N Street, Room 344
Sacramento, California 95814

Dear Ron:

We are in receipt of and have reviewed your Management Report #08-035, the result of an audit conducted and completed by your Department in October/November 2008.

In response to the Reportable Conditions listed in said Management Report, we offer the following:

STANDARD AGREEMENTS

1. This was simply an unfortunate oversight. The Fair will continue to comply with federal reporting laws and will issue a Form 1099-MISC to all independent contractors who receive \$600 or more from the Fair.

SPONSORSHIP POLICY & PROCEDURES

2. Currently the standard agreement with the Sponsorship Development Director is very detailed and includes their responsibilities and obligations to the Fair and the Sponsorship Program along with a payment schedule including approved reimbursements. The Fair also has a brochure and fact sheets on sponsorship opportunities that are given to potential sponsors. These items lay out the ground rules (policies and procedures) for the sponsor stating the benefits to both parties and the financial obligations. The Fair will use the above mentioned documents and will establish formal written policies and procedures for entering and securing sponsorship agreements in compliance with Chapter 6 § 6.25 of the F&E Contract Manual.

ACCOUNTING FOR CAPITAL LEASES

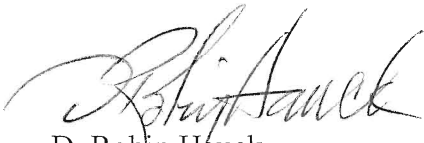
3. The Fair has contacted the office copier lessor to obtain an amortization schedule to establish the long term liability of the unpaid obligation of the lease. At this time the lessor has refused to comply.

March 12, 2009

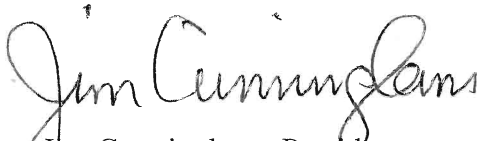
CASH ACCOUNT REPORTING

4. In the future the Fair will ensure that Standard Form 445 reflects the general ledger balance rather than bank statement balance at June 30th for each bank account outside the State Treasury.

Sincerely,



D. Robin Hauck
CEO



Jim Cunningham, President
Board of Directors

DRH;JC:drh

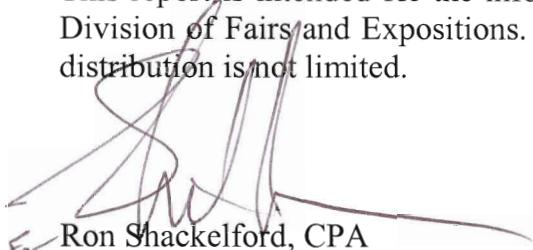
C DFA EVALUATION OF RESPONSE

A draft copy of this report was forwarded to the management of the 35th DAA, Merced County Fair, for its review and response. We have reviewed the response, and it adequately addresses the findings contained in this report.

DISPOSITION OF AUDIT RESULTS

The findings in this management report are based on fieldwork that my staff performed between October 27, 2008 and November 7, 2008. My staff met with management on November 7, 2008 to discuss the findings and recommendations, as well as other issues.

This report is intended for the information of the Board of Directors, management, and the Division of Fairs and Expositions. However, this report is a matter of public record and its distribution is not limited.



Fes Ron Shackelford, CPA
Chief, Audit Office

November 7, 2008

REPORT DISTRIBUTION

<u>Number</u>	<u>Recipient</u>
1	President, 35th DAA Board of Directors
1	Chief Executive Officer, 35th DAA
1	Director, Division of Fairs and Expositions
1	Chief Counsel, CDFA Legal Office
1	Chief, CDFA Audit Office